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## **Toward the Best Model of Strategy Implementation in Indonesian Islamic Banking from the Lens of Strategic Clarity**

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**Abstract:**

*This paper aims to identify the strategy implementation success in the Indonesia Islamic banking, from the strategic clarity approach namely align with vision, priority of strategy, scope of strategy.*

*Data has collected from middle managers of Indonesian Islamic banks via survey questionnaire developed from related literature. The data collected were then analyzed using structural equation modeling via Smart PLS.*

*Research have found that strategic clarity in term of align with vision, priority of strategy and scope of strategy have positive significant impact on strategy implementation success in Indonesian Islamic banking. The implications of these findings are further elaborated.*

**Keywords:** Strategic clarity, Strategy Implementation Success, Islamic banking, Indonesia.

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## **1. Introduction**

Bank of Indonesia has provided the grand strategies containing six initiatives namely 1) Increasing the *Sharia* compliance, 2) Increasing the quality of prudential banking operations, 3) Increasing the operational efficiency and competitiveness, 4) Increasing the stability of the banking system, 5) Increasing the expertise and quality of human resources, 6) Optimizing the social roles of Islamic banks in developing the small and medium enterprises (SME) to enhance the growth and performance of Islamic banks in Indonesia.

Although, the strategy has been well formulated, the performances achieved by the Islamic banks in Indonesia have been unsatisfactory. Conversely, there are still some challenges in developing Islamic banks in Indonesia that must be solved. The first challenge is that Islamic banks in Indonesia capture only small market share in banking industry despite of overwhelming growth of Islamic banking in Indonesia (Ismal, 2011; Hakim, 2012). The main reason is that the Islamic banks in Indonesia has not come out a clear strategy formulation, however the implementation of the Islamic banks' strategy follows the *modus operandi* developed by the commercial banks in Indonesia (Hakim, 2012). In fact, the Islamic banks should have pursued different strategies since they have different target market comparing with commercial banks.

For instance, the range of services offered, the operations and the implementation of the Islamic banks' activities must be complied with the Islamic banking philosophy (Sardjono *et al.*, 2012). In this scenario, it is crucial for Islamic banks to have a clear strategy in setting them apart from commercial banks and they need proficient and experienced employees in executing the activities pertaining to the concept of Islamic banks. In turn, they could acquire potential target market and subsequently enhance their market share in banking industry in Indonesia (Hakim, 2012; Siswanto, 2012). Apparently, strategy implementation appears to be associated with the strategic role of middle management (Floyd and Wooldridge, 1997). Here, the middle manager is an initiator who has the responsibility to implement strategy and his responses and behaviour produces crucial consequences on how strategy forms within an organization. Additionally, the perception of middle managers on strategic clarity has an impact on the successful of strategy implementation (Alamsjah, 2011).

In this respect, Noble and Mokwa (1999) propose that there are three dimensions of strategic clarity, namely align with vision, scope of strategy and priority of strategy. Consistent with the above explanation, this study aims to establish whether there are the relationships between strategic clarity namely align with vision, priority of strategy and scope of strategy and the successful of strategy implementation in Indonesian Islamic banking.

## **2. Literature Review**

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### **2.1 Strategy Implementation Success**

Despite the perceived significance of strategy implementation, inadequate research has been carried out on this strategic management process component. Noble and Mokwa (1999) points out that deep and cohesive bodies of strategy implementation research still do not exist. In fact, strategy implementation is viewed as the most difficult component of the strategic management process (Thompson *et al.*, 2011), and the bulk of good strategic planning has failed in its implementation (Beer and Eisenstat, 2000; Faure and Rouleau, 2011; Oswald *et al.*, 1994). Nevertheless, Ramaseshan *et al.*, (2013) state that there exist a small number of guidelines for successful strategy implementation.

In the last two decades, the formulation strategy has been broadly considered as the most important component in strategic management, even more important than strategy implementation. However, research highlights that the capability to implement strategy is viewed as very important to achieve superior business performance (Faure and Rouleau, 2011). In the same vein, Parnell and Parnell, (2011) argues that strategy formulation only produces superior performance for an organisation when it is successfully implemented.

In line with this, Beer and Eisenstat (2000) have conducted a study focused on understanding the root causes of implementing strategy's obstacle. From the study, they identify six obstacles in implementing strategy that they name as "*the six silent killers*". The six silent killers are: 1) a top-down on laissez-faire approach to management; 2) unclear strategy and conflicting priorities; 3) an ineffective senior management team; 4) poor vertical communication; 5) poor coordination across functions, business or borders and 6) inadequate down-the-line leadership skills and development. From these barriers, it is obvious that, the role of middle manager is very crucial in transforming the strategic planning into action. The involvement of middle manager could counteract the six-silent killer of implementing strategy. Indeed, Floyd and Wooldridge (1997) argue that middle managers perform a coordinating role where they mediate, negotiate, and interpret connections between the organizations institutional (strategic) and technical (operational) levels.

The six silent killers state that the unclear strategy contributes to the barrier of strategy implementation success. Consequently, it is important to develop a strategy direction, strategy priority and develop which member disposing to stand behind by top management team (Beer and Eisenstat, 2000). In line with this, the strategic clarity can be guidance by middle manager in implementing strategy. Thus, the level understanding of middle managers about strategic clarity has influenced successful strategy implementation (Andrews *et al.*, 2012).

### **2.2 Strategic Clarity**

Over the last four decades, a substantial body of research has been accumulated about strategic clarity (Stam *et al.*, 2010). The premise underlying this research is that more strategic clarity is associated with improved synchronization and

collaboration in implementing strategies, thus resulting in effective strategy implementation. However, Kellermanns *et al.*, (2005) posit that empirical findings on this concept have been conflicting. Researches on the bivariate relationship between strategic clarity and successful strategy implementation have shown supportive results (Kellermanns *et al.*, 2011; Walter *et al.*, 2011; Parand *et al.*, 2010) and partially supportive results (Bourgeois, 1980; Wooldridge and Floyd, 1990).

Despite ambiguous empirical results, researchers continue to argue that research on strategic clarity requires grabbing-attention (Parnell, 2011; Albacete-Saez *et al.*, 2011). Guth and MacMillan (1989) posit that perception of middle managers on strategic vision have an impact on their involvement in strategy implementation. In this respect, Wooldridge and Floyd (1989) propose two dimensions of strategic clarity, namely scope of strategy and content of strategy. However, Noble and Mokwa (1999) argued that there are three dimensions of strategic clarity, namely align with vision, scope of strategy and priority of strategy. Here, Noble and Mokwa (1999) have added the vision component because it is an important dimension of strategic vision in strategy implementation and it will be a guidance for middle managers when executing strategy. Therefore, as compared to the previous study, this study believes that the strategic clarity should be measured based on the dimension of align with vision, scope of strategy, priority of strategy and is further discussed in the following section.

### ***2.3 Theoretical Perspective and Hypothesis Development***

As an actor who is responsible for strategy implementation, middle managers must transform the vision of organizations into strategic action. In this context, a vivid strategic vision is required by middle managers to achieve the effectiveness of strategy implementation (Kohles *et al.*, 2012). Moreover, Lahti (1983) argues that managers acquire resources and produce organisation-specific activity patterns for resources according to their own judgment and beliefs. These patterns create the strategy that integrates organisational goals and actions into a cohesive entity. Alamsjah (2011) agreeably posits that strategic clarity has an impact on the successful of strategy implementation. Thus, from the strategic process view, the studies should consider the impact of strategic clarity on the successful of strategy implementation from middle manager perspective.

Strategy evaluation is the final stage in the strategic management process and provides response on strategy formulation and strategy implementation. The response indicates the adjustments and corrections that the organisations will need to make in its internal environment as a means of aligning it more effectively with the continuous improvement of the external environment in which it operates. Strategy evaluation may lead to adjustments or corrections in the formulation and implementation of strategy or the clarity of the strategy itself (Thompson *et al.*, 2011).

In line with the previous discussion, the first element of strategic clarity is ‘aligned

with vision'. An immense amount of attention has recently been focused on the advantages, particularly for organisations facing dynamic environments, of a compelling strategic vision (Andrews *et al.*, 2012; Boyne *et al.*, 2012; Albacete-Saez *et al.*, 2011). In addition, Coulson-Thomas (1992) proposed that clarity of strategic vision is extremely significant in the implementation of organisational strategy. Here, the strategic vision helps to provide an organisation with a sense of being whole. Furthermore, Slack *et al.* (2010) stated that vision becomes particularly significant when leaders can anticipate and respond to opportunities or pressures for change in order to remain competitive. Based on the argument, it proposed that:

***Hypothesis 1.1: Strategic clarity of align with vision is positively related to strategy implementation success.***

The second element of strategic clarity is known as priority strategy. The priority of strategy is imperative for middle managers to understand in detail since they would be translating the top management's objectives into actions (Ruvio *et al.*, 2010) and middle managers would also be identifying what needs to be implemented and what significant element can be moved from the top management's objectives into actions. In this respect, Bowman and Ambrossini (1997) explain that intended strategies should affect what middle managers perceive to be priorities in the organisation and in turn, these managerial perceptions should affect managerial behaviour and subsequently the realised strategy and performance. In this way, the actions, decisions and priorities of middle managers situated level below the top management team are likely to be harmonious with the intended strategy. Thus, the understanding of middle managers about the priority strategy is important to the successful of strategy implementation (Andrews *et al.*, 2012; Wooldridge and Floyd, 1990). Based on the above explanation, it is proposed:

***Hypothesis 1.2: Strategic clarity of priority of strategy is positively related to strategy implementation success.***

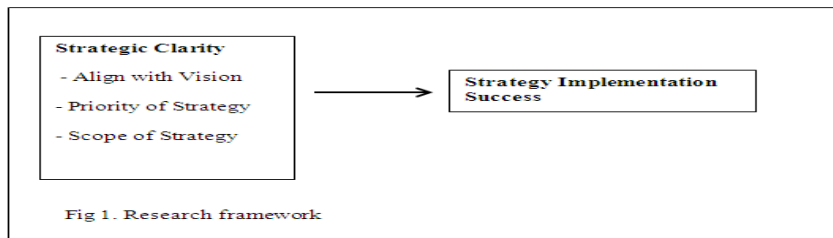
Scope of strategy refers to who is involved in the strategy, while content refers to what is agreed upon by decision-makers. In line with this, Walker and Ruekert (1987) have studied the relationship between the perception of middle managers on the scope of strategy and their involvement in marketing strategy activities. Their study found that the perception of middle managers on scope of strategy had an impact on their involvement in implementing marketing strategies. Hence, the broader scope of middle manager's responsibilities has an impact on the successful of strategy implementation (Noble and Mokwa, 1999; Combe *et al.*, 2012). Therefore, it is proposed that:

***Hypothesis 1.3: Strategic clarity of scope of strategy is positively related to strategy implementation success.***

Briefly, strategic clarity namely aligns with vision, priority of strategy and scope of

strategy have critical to achieve strategy implementation success. Figure 1 exhibits these relationships.

**Figure 1. Research Framework**



### **3. Methodology**

#### **3.1 Population and sample**

Population refers to the entire group of people, events, or things of interest that researcher wishes to investigate given a problem on hand (Sekaran, 2003). For purpose of generating information about the Islamic banks in Indonesia, Bank of Indonesia's reports are used to identify eligible banks for the survey. Middle manager is a person who is positioned below the top managers and above first supervision in the hierarchy including general line managers (e.g., divisional managers, branch managers, strategic business unit heads), functional line managers (e.g., marketing managers, operation managers). Normally their role is to connect the strategy of organization with the operational level (Floyd and Wooldridge, 1997; Dutton and Ashford, 1993). In view of that, the population of this study consists of all middle managers namely operational manager and marketing manager in branch office of Indonesia's Islamic banks. There are three groups of Islamic banks in Indonesia namely Islamic Commercial Bank, Islamic Business Unit and Islamic Rural Bank (Bank Indonesia, 2012).

Preliminary information obtained from six human resources managers in Islamic Commercial Banks, eight human resources managers in Islamic Business Unit and nine directors of Rural Islamic Banks indicated that on average there were two middle managers in branch offices involve with the daily operation of banks. Accordingly, the total populations of middle managers in 544 head operating and branch offices of 35 groups of Islamic banks in Indonesia are 1088 middle managers. The questionnaires have been sent to all population of middle managers in Indonesian Islamic banks. The respective contacts were closely followed up to ensure a smooth data collection process.

#### **3.2 Measurement instrument**

The questionnaire was divided into seven sections with each section separated by a specific heading. Instructions were clearly and precisely stated after each heading for ease of the respondents. The background of the respondent was presented in the final

section of the questionnaire. This procedure was adopted following suggestions that sensitive questions were best set towards the end of the questionnaire.

### *3.2.1 Strategy Implementation Success*

The strategy implementation success is the dependent variable in this study. The conceptualization and instrument for the successful of strategy implementation was adapted from Noble and Mokwa (1999), and Huber (2010). The instrument comprises nine items, concerning on the degree to which middle manager achieves the goals and objectives of a role and facilitates the overall success implementation effort. The respondent's assessment of the effectiveness of strategy implementation items were obtained on a 5-point Likert-type scale.

### *3.2.2 Strategic Clarity*

The conceptualisation and instruments for strategic clarity was adapted from Noble and Mokwa (1999). In their conceptualization, strategic clarity is proposed as a dimensional construct that consists of three dimensions, namely 'align with vision', 'priority of strategy' and 'scope of strategy'. The instrument comprises 10 items whereby three items are for measuring the strategies that align with vision, four items for measuring the priority of strategy and three items for measuring the scope of the strategy. The respondent's assessment of the strategic clarity items was obtained based on a 5-point Likert-type scale.

## **4. Analysis**

### *4.1 Profile of the respondent*

A total of 253 responses were received at the end of the data collection process. Based on initial expectation of 1088 respondent from the total of middle managers in Indonesia's Islamic banking, the response rate was approximately 23.25%. The profiles of the respondents can be analyzed according to three aspects, namely age, employed in organization, education level, employed in current functional position and category of Islamic banking. From 253 respondents, 53.4 % of the respondents were middle managers in the Islamic Commercial Bank, 44.7% were Islamic Business Unit middle managers, and 2% were middle managers in the Rural Islamic Bank. Most of the respondents, 32.8 %, were between 24 to 30 years old, 30 % were aged between 31 to 36 years old, only 26.5 % of them were between 37 to 42 years old, and 10.7 % of middle managers were between 43 to 48 years old. Almost 49 % of the middle managers had been employed in their organization for less than eight years. The majority of respondents held a Bachelor degree (98.8%) and only 1 % had pursued a Master's degree. In the terms of respondents' functional position, almost 74 % of respondents had spent less than five years in their functional position.

## **5. Results**

The Smart PLS M2 Version 2.0 and two-step analysis approach as suggested by Gerbing and Anderson (1988) were adopted to analyze the data. Following the

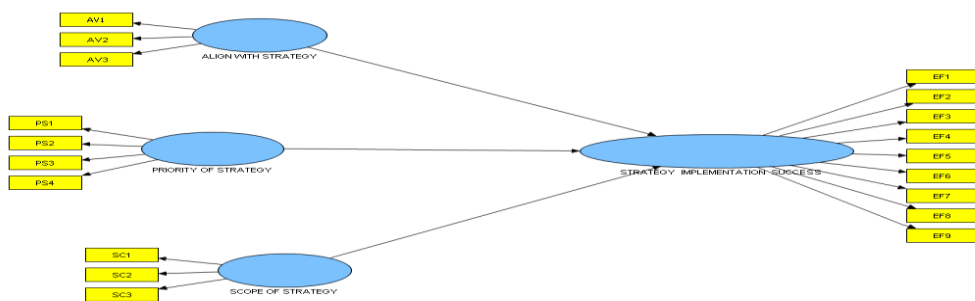
suggestions of some studies Chin (1998), Gil-Garcia (2008) the bootstrapping method (500 resample) was also carried out to determine the significance levels for the loadings, weight and path coefficients. Figure 2 illustrates the research model.

## 5.1 Measurement model

### 5.1.1 Convergent validity

First, the convergent validity, which is the degree to which multiple items that are used to measure the same concept agree, was tested. According to Hair *et al.* (2010), the factor loadings, composite reliability and average variance extracted were indicators used to assess the convergent validity.

**Figure 2.** Research model



The loadings for all the items exceeded the recommended value 0.6 (41). The composite reliability (*CR*) values (Table 1), which depict the degree to which the construct indicators indicate the latent construct, ranged from 0.816607 to 0.867367, which exceeded the recommended value of 0.7 (Hair *et al.*, 2010). The average variance extracted (*AVE*), which reflects overall amount of variance in the indicators accounted by the latent construct, were in the range of 0.528321 to 0.685552, which exceeded the recommended value of 0.5 (Hair *et al.*, 2010). Table 2 depicts the results of convergent validity.

### 5.1.2 Discriminant validity

Discriminant validity is the extent to which the measures do not reflect other variables and it is indicated by low correlations between the measure of interest and the measures of another constructs Chin (1998).

Discriminant validity can be examined by comparing the squared correlations between the constructs and the variance extracted for construct (Fornell and Larcker, 1981). As shown in Table 2, the squared correlations for each construct were less than the square root of the average variance extracted by the indicators measuring that construct, indicating adequate discriminant validity. Thus, the measurement model demonstrated adequate convergent and discriminant validity.



**Table 1.** Factor loadings and reliability

Items	Loadings <sup>a</sup>	CR	AVE	Cronbach $\alpha$
AV1	0.746369	0.826877	0.614702	0.688098
AV2	0.831644			
AV3	0.771627			
PS2	0.808721	0.834279	0.630109	0.727269
PS3	0.660034			
PS4	0.894793			
SC1	0.838925	0.867367	0.685552	0.775222
SC2	0.829727			
SC3	0.815115			
EF1	0.775220	0.816607	0.528321	0.702955
EF2	0.786448			
EF3	0.680695			
EF5	0.656103			

CR composite reliability, AVE average variance extracted.

<sup>a</sup> Standardized loading.

**Table 2.** Discriminant validity of construct Fornell-Larcker criterion.

No		ALIGN WITH VISION	PRIORITY OF STRATEGY	SCOPE OF STRATEGY	STRATEGY IMPLEMENTATION SUCCESS
1	ALIGN WITH VISION	<b>0.78403</b>			
2	PRIORITY OF STRATEGY	0.045421	<b>0.79379</b>		
3	SCOPE OF STRATEGY	0.541781	-0.035095	<b>0.82798</b>	
4	STRATEGY IMPLEMENTATION SUCCESS	0.498347	0.115813	0.400163	<b>0.72686</b>

Note: Diagonal elements are the square root of the AVE of the reflective scales while the off diagonals are the squared correlations between constructs

## 5.2 Structural model

The structural model represents the relationships between latent variables hypothesized in the research model (Duarte *et al.*, 2010). After computing the path estimates in the structural model, a bootstrap analysis was performed to assess the statistical significance of the path coefficients. The bootstrapping method has been defined as a non-parametric approach that makes statistical inferences without any distributional assumptions (Sharma *et al.*, 2012).

The procedure used 500 re-samples to test the significance of regression coefficients because, according to Chin (1998), this was the usual recommendation when using bootstrapping to estimate parameters. Table 3 and Fig. 3 show the results of the structural model from the output of PLS. Strategic clarity namely align with vision ( $\beta = 0.199$ ,  $p < 0.01$ ), priority of strategy ( $\beta = 0.228$ ,  $p < 0.05$ ) and scope of strategy ( $\beta = 0.202$ ,  $p < 0.01$ ) were positively related to the successful of strategy implementation, explaining 28.3 % of the variance, thus supporting H1.1, H1.2 and H1.3 of this study. As explained in the introduction, the study aims to examine the strategic clarity manager to achieve the successful of strategy implementation in Indonesia's Islamic banking from middle manager perspective.

As shown in Table 3, three of component of strategic clarity (align with vision,

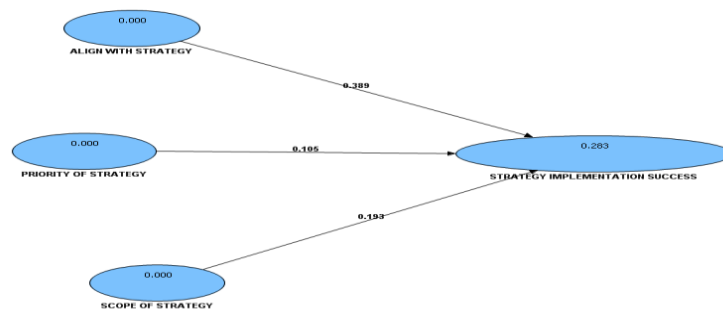
priority of strategy and scope of strategy) revealed a significant relationship with the successful of strategy implementation.

**Table 3.** *Summary of the structural model*

Path	Description	Hypothesis	Path coefficient	t value	Results
AV →EF	Align with vision →strategy implementation success	H1a	0.199	5.989**	Support
PS→EF	Priority of strategy →strategy implementation success	H1b	0.228	1.774*	Support
SC→EF	Scope of strategy→strategy implementation success	H1c	0.202	2.986**	Support

\* $p < 0.005$ , \*\* $p < 0.01$

**Figure 3.** *The structural model*



## 6. Discussion and implications

This study confirms that strategic clarity namely aligns with vision, priority of strategy and scope of strategy has contributed to the successful of strategy implementation in Indonesia's Islamic banking. First, the perception of middle manager as implementer regarding to strategic vision have an impact on the successful of strategy implementation. In fact, if they consider the strategic vision as inappropriate; such middle managers are more likely to hamper the plan and implementation of strategy (Oswald *et al.*, 1994). Thus, these conflicts could appear as impediments to implementation, absolute sabotage of the strategy, or redundant hold-ups in implementing the strategy (Guth and MacMillan, 1986). Accordingly, the Indonesian Islamic banking must develop the clear strategic vision because it will be a guidance and overarching direction for middle managers to achieve the successful of strategy implementation. In addition, the strategic clarity namely priority had positive significant relationship with the successful of strategy implementation in Indonesian Islamic banking. In this respect, Bowman and Ambrossini (1997) explain that intended strategies should affect what middle managers perceive to be priorities in the organisation and in turn, these managerial

perceptions should affect managerial behaviour and subsequently the realised strategy and performance. In this way, the actions, decisions and priorities of middle managers situated level below the top management team are likely to be harmonious with the intended strategy. Thus, the understanding of middle managers about the priority strategy is important to reach the successful of strategy implementation (Andrews *et al.*, 2012; Wooldridge and Floyd, 1990).

As predicted, scope of strategy had positive significant relationship with successful of strategy implementation in Indonesia's Islamic banking. In this context, the perception of middle managers on scope of strategy had an impact on their involvement in implementing strategies. Hence, the broader scope of middle manager's responsibilities has an impact on their efforts in the successful of strategy implementation process (Noble and Mokwa, 1999). In summary, the study findings clearly demonstrate the need for strategic clarity to ensure the successful implementation strategy in Indonesian Islamic banking.

## 7. Limitations and future research

In designing this study, several methodological limitations were considered to conduct effective study. Whereas the study design was tailored to address research objectives and focused on the critical elements of this study, this study is still not doing without its limitations. One of these is the reliance on cross sectional data. The study considered the current state of the Islamic banking from middle manager perspective that does not allow this study examines the short and long-term effect of the strategic clarity on the successful of strategy implementation in Indonesian Islamic banking. Future study in this area would benefit by strategic clarity and the successful of strategy implementation from middle manager perspectives in Indonesian Islamic banking. Secondly, since the study was accomplished in a specific national country context (Indonesian Islamic banks), the validation and generalization of this study are still limited. It is essential to note therefore, that the results should be interpreted with caution when extrapolating the results to different cultural context. A useful direction for future study in this consider is to test the validation in Islamic banking in other countries with the aim of validating it.

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